



CITY OF VANCOUVER

ADMINISTRATIVE REPORT

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Date: August 30, 2005
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CC File No.: 1611
Meeting Date: September 13, 2005

TO: Vancouver City Council
FROM: General Manager of Corporate Services/Director of Finance
SUBJECT: 2005 Debenture Program

RECOMMENDATION

- A. *THAT Council approve the issuance of up to \$139 million City of Vancouver debentures utilizing debenture authority approved as part of the 2003 to 2005 Capital Budgets as follows:*

<u>Category</u>	<u>Proposed Debenture</u>
<i>Sewers</i>	<i>30,720,000</i>
<i>Waterworks</i>	<i>19,707,100</i>
<i>Public Works & Public Safety</i>	<i>54,008,000</i>
<i>Park & Recreation</i>	<i>15,091,000</i>
<i>Cost Shared Funding</i>	<i><u>19,500,000</u></i>
<i>Total</i>	<i>\$139,026,100</i>

- B. *THAT the Director of Finance be empowered to act and instruct the City's Fiscal Agent to proceed with the issue, after consultation with the Mayor, the Chair of the City Services and Budgets Committee, and the City Manager, or a majority of them, and to set the rate, price, and other terms on which the debentures will be marketed.*

It should be noted that once the Director of Finance instructs the fiscal agent to issue the debenture, Council will be required to pass the appropriate borrowing by-law prepared by the Director of Legal Services as part of the standard documentation package for the debenture issue.

- C. *THAT Council authorize the Director of Finance to enter into a fiscal agency agreement with CIBC World Markets for the debenture issue contemplated in Recommendation A.*

COUNCIL POLICY

Council gets its authority to issue debentures from two sources. Under provisions of the Vancouver Charter, Council has the authority to approve borrowing authority for water and sewer purposes. For all other purposes, Council's authority to approve borrowing authority and to issue debentures follows from approval of the electors to specific borrowing questions normally associated with the City's capital planning process.

The requirement to borrow funds to finance capital expenditures is established by Council at the time of the approval of the annual Capital Budgets.

As a pre-condition to an external debenture issue, City Council authorizes the Director of Finance to set the rate, price and other terms and conditions on which the debenture issue will be marketed, including the power to instruct the City's Fiscal Agent to proceed with the issue. In doing so, Council commits itself to follow through with the debenture issue and to pass the appropriate borrowing by-law after the debentures are sold.

PURPOSE

The purpose of this report is to seek Council authority to market an external debenture issue of up to \$139 million in order to raise the funds required to undertake the capital expenditure program and to enter into a fiscal agency agreement for management of that issue.

BACKGROUND

The City has an on-going program of borrowing by debentures to finance capital expenditures. This program is tied to the City's capital expenditure planning process. Under normal circumstances, debt is paid off over a ten year period so that the cost of the capital works is spread out over that period of time. The City is required to make full provision in its annual budget for the principal and interests costs associated with its borrowing program.

The timing for a debenture issue is influenced by both the cash flow considerations (ie. when the funds are required to finance capital expenditures) and the trends for market acceptance of an issue and prevailing interest rates. The City completed its last debenture issue in March 2004 with \$100 million in serial debentures sold in the Canadian market.

The City utilizes a "fiscal agent" to provide advice on the City's debenture issues and to lead a syndicate of investment brokers who market the securities throughout the world. The current syndicate is co-led by RBC Global Markets and CIBC World Markets, two of the largest public sector debenture management firms in Canada.

DISCUSSION

1. Debenture Issue

Staff have been monitoring cash balances in the Capital Fund and anticipate that before the end of 2005, the Fund will have expended the proceeds of the previous debenture issue and will be financing expenditures from interim sources. The capital cash-flow projections indicate that up to \$120 million will be required to finance capital expenditures before the end of 2005. A debenture issue in the range of \$139 million would be appropriate at this time to carry the Capital Fund for the next 12 to 14 months.

Staff have also been tracking interest rates and market conditions. Both short term and long term interest rates continue at their lowest levels in many years. Analysts are suggesting that rates at current levels may not continue in the medium term with increases anticipated before year-end and into 2006. In addition, significant liquidity will exist in the capital markets during the latter part of September because of the maturity of large federal and provincial issues that will not be replaced, keeping downward pressure on rates. As a result, it is important that the City be positioned to proceed to market a debenture issue to take advantage of anticipated attractive market conditions, including having the necessary approvals in place.

In marketing a debenture issue, the borrower needs to have complete flexibility to decide on the timing of the sale, the structure of the issue, the market into which the issue will be offered (public, private, domestic, Europe) and the interest rate and price of the issue, right up to the point of sale. The timetable of Council meetings at which approval for debenture issues can be sought does not support this degree of flexibility. It has been Council practice to give the authority to initiate an issue of debentures to the Director of Finance and a group consisting of the Mayor, the Chair of the City Services and Budgets Committee and the City Manager. Essentially, this group is empowered to make the final decisions leading to the issuance of the debentures. Once this group approves the sale, Council is committed to pass the necessary by-law as part of the debenture documentation package. This arrangement has worked very well in the past and is recommended for the 2005 issue.

The City has an excellent credit rating, with the two predominant agencies in North America setting the City's bond rating at triple A. This credit rating not only makes City debentures an attractive investment in domestic markets but opens the door to issues in other markets as well.

It is anticipated that the debenture issue will be for a maximum of \$139 million Canadian, the final decision being based on the timing of the issue and market conditions.

It is anticipated that the borrowing will be comprised of the following authorities associated with the recent Capital Plan:

2003 - 2005 Capital Plan		
Category	Existing Authority	Proposed Debenture
Sewers	30,720,000	30,720,000
Waterworks	19,707,100	19,707,100
Public Works & Public Safety	54,008,000	54,008,000
Park & Recreation	15,091,000	15,091,000
Cost Shared Funding	19,500,000	19,500,000
Totals	<u>\$139,026,100</u>	<u>\$139,026,100</u>

The existing borrowing authority for Sewer and Water projects has been approved by Council as part of recent Capital Budgets. The balance of the issue is derived from borrowing authorities approved by the electorate for Public Works and Public Safety Facilities, Parks and Recreation and Projects with Cost Sharing. Specific Council approval for program and project expenditures has been provided in Capital Budgets associated with the 2003 - 2005 Capital Plan.

The actual amount of the debenture issue will be determined in conjunction with the fiscal agent along with the other terms at the time of the issue.

2. Fiscal Agency Agreement

As a periodic participant in the capital markets, it is impossible for the City of Vancouver to be up to date on the borrowing conditions or to have access to the extensive infrastructure necessary to market a debenture issue. The City therefore relies on a "fiscal agent" to assist with our borrowing program. The "fiscal agent" provides expert advice on a variety of issues related to issuance of debentures, including market conditions, the timing, size and structure of debenture issues; orderly marketing procedures to avoid conflicts with similar competing borrowers; favourable marketing of the name of the borrower to the capital markets. This service is particularly critical when the City is preparing to launch a debenture issue because significant savings in interest costs are possible if a borrower can position itself to take advantage of favourable market conditions. When the City is ready to launch an issue, the fiscal agent is responsible for managing the sale of the issue through a syndicate of brokers.

The City's debenture syndicate is co-led by RBC Capital Markets and CIBC World Markets. RBC Capital Markets has assisted the City with the placement of a number of successful debenture issues, including the preparation of related financing documents. CIBC World Markets has acted as a dominant member of the syndicate for many years.

In launching an issue, the City needs to enter into a fiscal agency agreement with one of the syndicate co-leads to market the issue. The fiscal agency agreement is not a highly formal contract, however, it does set out the general terms and conditions and the mutual understanding between the City and its fiscal agent. In essence, the City agrees that, in return for providing a range of advice on underwriting, trading and economics and research, the fiscal agent receives exclusive responsibility for managing the sale of City of Vancouver debentures by the debenture syndicate in cases where the City accesses external markets. The only compensation received by the fiscal agent is a portion of the overall commission paid by the City on the issue. This commission is based on generally accepted industry practice and is divided among the syndicate members based on their apportionment of the debenture issue. The actual terms and conditions of each issue are determined through discussion between the fiscal agent and City staff at the time of issue, and the City retains complete discretion not to proceed if any aspect of the issue is unacceptable.

The co-lead model in the City's syndicate is based on the understanding that the role of the fiscal agency will alternate between the RBC Capital Markets and CIBC World Markets. As RBC Capital Markets has led a number of recent issues, the Director of Finance recommends that CIBC World Markets be the fiscal agent for the debenture issue contemplated in this report. CIBC World Markets is one of the most highly qualified underwriters in Canada and in offshore Canadian dollar markets.

CONCLUSION

There is currently \$139 million of unfinanced borrowing authority remaining from the 2003 - 2005 Capital Plan. In order to take advantage of attractive market conditions, it is recommended that the Director of Finance be authorized to initiate the issuance of up to \$139 million in debentures to finance the capital expenditure program. In addition, it is recommended that Council approve the appointment of CIBC World Markets as lead broker for the contemplated issue.

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